

Received via E-mail

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Sent: Tuesday, December 23, 2014 2:32 PM
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Subject: FFIEC 102 question

Lines 19-21 of the form would require banks to provide capital requirements for the correlation trading portfolio. The market risk capital requirements for the correlation trading portfolio requires that banks take the higher of the point in time requirements and the average of the prior 12 weeks. Please see the relevant rule language below from section 209:

"(d) Calculation of comprehensive risk capital requirement. The comprehensive risk capital requirement is the greater of:

- (1) The average of the comprehensive risk measures over the previous 12 weeks; or
- (2) The most recent comprehensive risk measure.

(a)(2) The comprehensive risk measure is either:

(i) The sum of:

(A) The [BANK]'s modeled measure of all price risk determined according to the requirements in paragraph (b) of this section; and

(B) A surcharge for the [BANK]'s modeled correlation trading positions equal to the total specific risk add-on for such positions as calculated under section 210 of this subpart multiplied by 8.0 percent; or

(ii) With approval of the [AGENCY] and provided the [BANK] has met the requirements of this section for a period of at least one year and can demonstrate the effectiveness of the model through the results of ongoing model validation efforts including robust benchmarking, the greater of:

(A) The [BANK]'s modeled measure of all price risk determined according to the requirements in paragraph (b) of this section; or

(B) The total specific risk add-on that would apply to the bank's modeled correlation trading positions as calculated under section 210 of this subpart multiplied by 8.0 percent."

We believe the above language requires banks to calculate the capital requirements for the correlation trading portfolio as:

* $\text{Max}[(\text{point in time model} + \text{point in time surcharge}), (\text{average model} + \text{average surcharge})]$

However, the FFIEC 102 instructions would instead require the following:

* $\text{Max}[(\text{point in time model}), (\text{average model})] + \text{point in time surcharge}$

The American Bankers Association (ABA) hosted a call with banks and representatives from the US Agencies where we raised this question. We were instructed to liaise with our prudential regulator to determine the appropriate reporting requirements. We would like to get clarity on which approach

should be taken and reported in the FFIEC 102 and whether banks have the option of choosing the approach.